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187491

ELLIOTT & ELLIOTT, P.A.
ATTORNEYS AT LAW
721 OLIVE STREET
COLUMBIA, SOUTH CAROLINA 29205
selliott@elliottlaw.us

SCOTT ELLIOTT

TELEPHONE (803) 771-0555
FACSIMILE (803) 771-8010

July 27, 2007

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SC PUBLIC SERVICE COMMISSION

VIA HAND DELIVERY
Mr. Charles L. A. Terreni, Esquire
Chief Clerk and Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Ste. 100
Columbia, SC 29210

RE: Proceeding to Establish Guidelines for an Intrastate Universal Service Fund (USF)
Docket No. 1997-239-C

Dear Mr. Terreni:

Enclosed for filing in the above-referenced docket are the original and ten copies (10) of the Comments of United Telephone Company of the Carolinas d/b/a Embarq. By copy of this letter, I am serving all parties of record.

Also enclosed is an extra copy of the Comments along with a Certificate of Service which I would ask you to date stamp and return to my office via my courier. If you have questions, please do not hesitate to contact me.

Sincerely,

Elliott & Elliott, P.A.

Scott Elliott

SE/jcl
Enclosures
cc: Parties of Record w/enc.
H. Edward Phillips, Esq.

BEFORE

THE PUBLIC SERVICE COMMISSION

OF SOUTH CAROLINA

In Re:	)	
	)	
Intrastate Universal Service Fund	)	Docket No. 1997-239-C
	)	
	)	

COMMENTS OF
UNITED TELEPHONE COMPANY OF THE CAROLINAS DBA EMBARQ

INTRODUCTION

In Order No. 2007-422, dated June 27, 2007 (the "June Order"), the Public Service Commission of South Carolina ("Commission") ordered that cost studies and the resultant cost per line used in the calculations for the Universal Service Fund ("USF") be updated because the studies are now more than five years old. Further, the Commission ordered parties to this Docket to file briefs describing the parties' proposed approach regarding this update. United Telephone Company of the Carolinas d/b/a Embarq ("Embarq") herein responds.

In the June Order, the Commission acknowledged suggestions made by the South Carolina Cable Television Association, CompSouth, Time Warner Telecom of South Carolina LLC and NuVox Communications Incorporated ("Petitioners") that the Commission should ensure that USF support being received is based on current cost information. The Petitioners' suggestions stemmed from their concern that "stale cost information" could be resulting in

Carriers of Last Resort ("COLRs" or in the singular "COLR") recovering too much support from the USF[1].

The Petitioners' concern is misplaced. The total size of the USF is approximately $340 million. Total disbursements are approximately $54.8 million. This means that COLRs continue to recover more than eighty percent (80%) of their basic local service costs from sources other than revenues generated by basic local service rates and explicit support funds, including the USF. As Petitioners correctly observe, most of the COLR are receiving less than a third of the USF support for which they are eligible. Embarq is no exception. Embarq received less than fifteen percent (15%) of the support for which it was eligible in 2006. Embarq knows for a fact that its needed support for basic local service has not declined more than eighty-five percent (85%) since the size of the USF was originally determined, which is what would have had to occur to result in Embarq over recovering USF support.

It is inconceivable to Embarq that the overall needed support for basic local service has declined to the point that the fund's size would even approach total disbursements. In fact, Embarq's experience is that its costs are not declining on a per-unit basis. Instead, per-access line costs are on the rise. As Embarq has lost access lines to competition, its fixed costs have not decreased appreciably, which has driven up the costs of its remaining lines. Also, the Petitioners fail to recognize that COLR revenues do not increase because of support received from the USF. Rather, USF support offsets dollar-for-dollar decreases in intrastate access and other non-basic service rates. In this way, a COLR removes implicit basic local service subsidies from intrastate access and other non-basic services and makes these subsidies explicit through the USF.

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[1] See Submission Regarding USF Issues Which Should Be Addressed, filed by Petitioners April 3, 2007, in response to Commission Directive dated March 7, 2007, at page 3.

The Commission has already put in place safeguards to prevent COLR abuse of the fund and to allow the Commission to manage the size of the fund. Since the initial phase of fund implementation (mandatory intrastate access reductions) a COLR has been permitted to seek additional amounts of USF support by reducing access or non-basic rates by like amounts. Any such request must include "detailed cost data clearly demonstrating that implicit support exists in the rates that are proposed to be reduced."[2]

Nonetheless, the COLR per-line costs, and thus the maximum size of the USF, are based on studies more than ten years old. Embarq understands the Commission's responsibility to ensure that the USF is no larger than necessary and its desire to review more up to date cost data. At the same time, Embarq is concerned that other parties would have the Commission engage in the kind of exhaustive proceeding that was undertaken to establish and originally size the USF.

Specifically, Embarq encourages the Commission to reject suggestions, if they are made, that a single cost model and single set of inputs are required for purposes of this proceeding. If the Commission were establishing an initial fund or fundamentally restructuring the existing fund, many issues would require close examination, including the need for uniform cost modeling and inputs. However, uniformity need not be an issue in this proceeding so long as the Commission is satisfied that the models used by the three largest COLRs in the state produce a level of comfort that the COLRs are not receiving more support than they need to replace the implicit basic local service subsidies that have been removed from the rates of non-basic services.

Tremendous advances in cost modeling have been realized since the development of the Benchmark Cost Proxy Model ("BCPM"). As a result, Embarq no longer endorses or uses the BCPM. For purposes of this proceeding, Embarq will produce and file the results of total service

[2] See the South Carolina Universal Service Fund Administrative Procedures at pages 5 and 6.

long run incremental cost ("TSLRIC") studies produced with a forward-looking cost model developed by and specific to Embarq. The costs studies will be specific to basic residential service and basic business service, which are the two services supported by the USF and the subjects of this proceeding. Costs of these services will be identified for each of Embarq's existing serving wire centers. Network element inputs to the model will be those associated with the loop, switching and transport. Inputs will also include a forward-looking expense study, and total demand for each service. The Embarq cost model will employ forward-looking, least-cost network designs and technology currently available. The costs of material and contractor services will be drawn from actual data specific to the Embarq serving areas for which costs are being forecast. Customer locations will be identified by address with state-of-the-art geocoding, thus ensuring that customer density is accurately reflected. In Embarq's view, accurately reflecting customer density is the single most important factor in accurately forecasting costs.

The cost study that Embarq contemplates will require considerable resources. If the Commission approves of how Embarq proposes to proceed with its costs studies, Embarq respectfully requests that the Commission's approval order allow at least 120 days from the date of that order to produce and file the requested cost analysis with the Commission. However, if the Commission pursues a course different from Embarq's proposal, the amount of time required to produce a cost analysis cannot be estimated until the Commission's decision is known.

Embarq encourages the Commission not to make this proceeding needlessly complicated. For example, the South Carolina Cable Television Association and its allies would have the Commission consider other issues that would require revising the USF guidelines. The guidelines do not require revision to gain the assurances that COLRs are not over recovering support they need to provide basic local service in high cost areas of the state. Revising the guidelines at this time would be untimely. As Embarq explained in its February 22, 2007, letter to the Commission regarding when and if revisions should be made to the guidelines, the FCC is actively considering proposals which are meant to remedy the many short comings of current inter-carrier compensation arrangements. Embarq encourages the Commission not to make revisions to the USF guidelines at least until the FCC offers clear direction about how it intends to address inter-carrier compensation and related issues.

Regarding the four administrative issues raised by the Office of Regulatory Staff, Embarq finds acceptable (1) changing the fund year to match the state fiscal year, (2) adjusting the fund semi-annually, (3) establishing a time limitation for identifying reporting errors regarding overpayments, and (4) charging a fee for carriers filing USF reports late. One year is sufficient time for identifying reporting errors regarding overpayments. Embarq has no suggestion about a late report fee except that it should be sufficient to deter late reporting.

In summary, cost studies for USF purposes will require considerable time and resources. Embarq urges the Commission not to make the task more difficult than it needs to be. The Commission's order to update the cost studies seems to have risen from concerns of COLR competitors that the COLRs could be over-recovering support from the USF. The concern is obviously misplaced, given the huge difference between the maximum size of the fund (representing total intrastate implicit subsidies for basic local service) and total fund disbursements (representing total state-sponsored explicit subsidies for basic local service). Embarq is convinced that new cost studies will not appreciably shrink the difference.

WHEREFORE, United Telephone Company of the Carolinas d/b/a Embarq respectfully requests that the Public Service Commission of South Carolina permit Embarq to produce its cost analysis as outlined herein, that the Commission grant the parties, including Embarq, at least

120 days from the date of Commission's order requiring cost analysis updates to produce and file the same with the Commission, and that the Commission adopt the resolutions proposed by the Office of Regulatory Staff concerning the four administrative issues the ORS has raised in previous filings.

Respectfully submitted on this 27th day of July, 2007 by:

Scott Elliott, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, SC 29205
803-771-0555 (P)
803-771-8010 (F)

Edward Phillips, Esquire
Embarq
Mailstop: NCWKFR0313
14111 Capital Boulevard
Wake Forest, NC 27587-5900
919-554-7870 (P)
919-554-7913 (F)

Attorneys for United Telephone Company of the Carolinas

ORIGINAL

CERTIFICATE OF SERVICE

I hereby certify that I have served one copy of Comments on USF Cost Studies, in Docket No. 97-239-C on behalf of United Telephone Company of the Carolinas d/b/a Embarq on all below listed parties to this proceeding by depositing a copy addressed to each in the United States Mail, first-class postage prepaid.

Sonia Daniels, Regulatory Specialist
AT&T Communications of the Southern States
Southern Region - AT&T External Affairs
1230 Peachtree, 4th Floor
Atlanta, GA, 30309

Gene V. Coker, Counsel
AT&T Communications of the Southern States, LLC
AT&T Law and Governmental Affairs
1230 Peachtree Street N.E., 4th Floor
Atlanta, GA, 30309

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Patrick Turner, Counsel
BellSouth Telecommunications, Inc.
Post Office Box 752
Columbia, SC, 29202

John F. Beach, Counsel
Ellis, Lawhorne & Sims, P.A.
Post Office Box 2285
Columbia, SC, 29202

Anthony Mastando, Senior Manager/Regulatory Attorney
ITCDeltaCom Communications
7037 Old Madison Pike, Suite 400
Huntsville, AL, 35806

M. John Bowen Jr., Counsel
McNair Law Firm, P.A.
Post Office Box 11390
Columbia, SC, 29211

Florence P. Belser, Esquire
Office of Regulatory Staff
Post Office Box 11263
Columbia, SC, 29211

Faye A. Flowers, Counsel
Parker Poe Adams & Bernstein, LLP
Post Office 1509
Columbia, SC, 29202

Steven W. Hamm, Esquire
Richardson Plowden Carpenter & Robinson, P.A.
P.O. Drawer 7788
Columbia, SC, 29202

Bonnie D. Shealy, Counsel
Robinson, McFadden & Moore, P.C.
Post Office Box 944
Columbia, SC, 29202

Frank R. Ellerbe III, Counsel
Robinson, McFadden & Moore, P.C.
Post Office Box 944
Columbia, SC, 29202

Craig K. Davis , Esquire
SC Office of Info. Resources
Budget & Control Board
Davis Law Firm
1420 Hagood Avenue
Columbia, SC, 29205

Robert E. Tyson Jr., Counsel
Sowell Gray Stepp & Laffitte, LLC
Post Office Box 11449
Columbia, SC, 29211

Zel Gilbert, Director External Affairs
Sprint
1122 Lady Street, Suite 1050
Columbia, SC, 29201

William R.L. Atkinson, Counsel
Sprint Nextel Corporation
233 Peachtree Street, N.E.
Suite 2200
Atlanta, GA, 30303

Stan J. Bugner
State Director/Regulatory & Government Affairs
Verizon Telecommunications, Inc.
1301 Gervais Street, Suite 825
Columbia, SC, 29201

Benjamin P. Mustian, Counsel
Willoughby & Hoefer, P.A.
Post Office Box 8416
Columbia, SC, 29202

John M.S. Hoefer, Counsel
Willoughby & Hoefer, P.A.
Post Office Box 8416
Columbia, SC, 29202-8416

Ross Allen Buntrock, Counsel
Womble Carlyle Sandridge & Rice, PLLC
1401 Eye Street, Seventh Floor
Washington, DC, 20005

Susan B. Berkowitz, Sr. Mgr./Regulatory Attorney
Women's Shelter
SC Appleseed Legal Justice Center
P.O. Box 7187
Columbia, SC, 29202

Darra Cothran, Counsel
Woodward, Cothran & Herndon
Post Office 12399
Columbia, SC, 29211

John J. Pringle, Jr., Counsel
Ellis, Lawhorne & Sims, P.A.
Post Office Box 2285
Columbia, SC, 29202

Burnet R Maybank, III , Esquire
Nexsen Pruet Adams Kleemeier, LLC
Post Office Box 2426
Columbia, SC, 29202

Lori Reese Patton, Counsel
Sprint Communications Company, L.P.
One Wachovia Center, Suite 3500
301 South College Street
Charlotte, NC, 28202-6037

William R. Atkinson, Esquire
United Telephone and Sprint Communications
3065 Cumberland Circle
Mailstop GAATLD0602
Atlanta, GA, 30339

This 27th day of July, 2007.

Jackie C. Livingston, Legal Assistant
Elliott & Elliott, PA
721 Olive Street
Columbia, SC 29205
803-771-0555